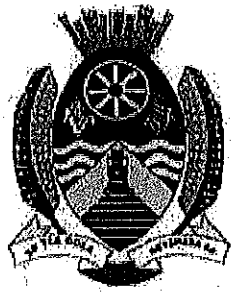
RATLOU LOCAL MUNICIPALITY

(NW381)

Unaudited Annual Financial Statements

2015/2016



Ratlou Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

Ratlou Local Municipality
Annual Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	Local Municipality (MFMA)
Nature of business and principal activities	The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates and general services - All types of services rendered by the municipality
Executive committee	
Mayor	Mance VP - Resigned Dec 2015 Modise TC - Jan 2016
Councillors	Mongala MR - Speaker Boikanyo GJ - Chairperson Sec 79 MSA Bank MM - Member of Executive Committee Kumalo MJ - Member of executive Committee Matebele GA - Member of Executive Commitee Mokgosi PP - Member of Executive Committee Shomolekae VK - Member of Executive Committee Bees TL Boikanyo L Dala MM Daniels MBS Ditau ND Galetlhobogwe AF Gaobotse J Gaosirwe K Kobela MF Lebelela KJ Leepile KM Mafethe PR Molaolwa KD Mongale GJ Ncoane OGA Rankokwadi GD Seabelo OE Sedia MJ Seitshiro MD Sekwati LP
Grading of local authority	Grade 2
Capacity of local authority	Low
Municipal demarcation code	NW381
Chief Finance Officer (CFO)	Lekgetho MP
Accounting Officer	Lekomanyane G
Registered office	Delareyville Road Next to Setlagole Library Setlagole 2772

General Information

Postal address	Private Bag X209 Madibogo 2772
Bankers	First National Bank
Auditors	Auditor-General of South Africa
Attorneys	Leepile Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the council:

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SALGA	South African Local Government Association
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

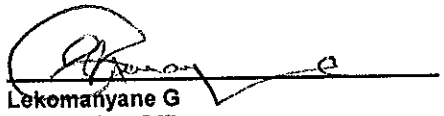
The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on his behalf by:



Lekomanyane G
Accounting Officer

Setlagole

31 August 2016

Ratlou Local Municipality

Unaudited Annual Financial Statements for the year ended 30 June 2016

Report of the Chief Financial Officer

1. Introduction

These annual financial statements for the 30 June 2016 financial year have been prepared according to Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board and according to Section 122(3) of the Municipal Finance Management Act 56 of 2003.

2. Budget

Council approved a capital budget of R 33 205 000 and operational budget of R 138 683 360 for the 30 June 2016 financial year. A further amount of R 66 439 487 was approved in an adjustments budget. A special adjustment budget of R 13 550 677 for operational budget and R 2 229 000 capital budget was approved.

3. Operating Results

Details of the operating results are included in the Statement of Financial Performance.

Total revenue has decreased by 5% from R167 622 789 in 2014/2015 to R159 533 732 in 2015/2016.

4. Investments

Investments decreased by 1% from the year before to an amount of R19 960 000 at the end of the 2015/2016 year. Interest earned from short term investments amounts to R 2 132 536 for the year ending 30 June 2016

5. Cash

At 30 June 2016, cash and cash equivalents amounted to R 58 229 957. The amount decreased by 52.5% from the prior year.

6. Conclusion

I wish to express my sincere appreciation to the Ratlou Local Municipality's Mayor, the Speaker, Councilors', the Municipal Manager, Senior Managers, Management and the staff for their support and cooperation in achieving the reported results.

I wish to convey a special work of appreciation to all the staff members who assisted me during the compilation of the financial statements for their dedication and hard work, as well as to all the employees of Ratlou Local Municipality.

Patience Lekgetho
Chief Financial Officer

Setlagole

31 August 2016

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	58 229 957	26 690 235
Receivables from exchange transactions	4&6	748 218	3 298 865
Receivables from non-exchange transactions	5&6	13 135 573	60 385 326
Inventories	7	923 996	786 714
VAT receivable	8	9 285 622	3 641 923
		82 323 366	**94 803 063**
Non-Current Assets			
Investment property	9	19 690 000	19 938 960
Property, plant and equipment	10	270 879 417	213 107 521
Intangible assets	11	594 349	867 988
		291 163 766	**233 914 469**
Total Assets		**373 487 132**	**328 717 532**
Liabilities			
Current Liabilities			
Other financial liabilities	12	20 081 098	-
Payables from exchange transactions	13	14 146 707	13 244 891
Consumer deposits	14	2 721	2 721
Unspent conditional grants and receipts	15	3 592 947	3 635 082
Provisions	16	949 831	1 014 520
Employee benefit obligation	17	332 000	442 000
		39 105 304	**18 339 214**
Non-Current Liabilities			
Other financial liabilities	12	16 766 946	-
Employee benefit obligation	17	750 000	975 000
		17 516 946	**975 000**
Total Liabilities		**56 622 250**	**19 314 214**
Net Assets		**316 864 882**	**309 403 318**
Accumulated surplus		316 864 882	309 403 318

* See Note 48

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	19	244 441	197 243
Rental of facilities and equipment	20	1 112 266	983 651
Interest received - trading		1 568 231	1 048 610
Administration and management fees received		-	2 365 688
Council write-offs		3 076 299	-
Insurance claims received		365 400	447 388
Other income		430 675	593 638
Interest received - investment	22	2 132 536	1 625 673
Total revenue from exchange transactions		**8 929 848**	**7 261 891**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	14 490 055	38 168 503
Transfer revenue			
Government grants and subsidies	24	136 184 329	121 845 095
Fines, penalties and forfeits		238 200	347 300
Total revenue from non-exchange transactions		**150 912 584**	**160 360 898**
Total revenue		**159 842 432**	**167 622 789**
Expenditure			
Employee related costs	25	(48 255 513)	(41 647 825)
Remuneration of councillors	26	(10 122 126)	(9 311 716)
Depreciation and amortisation	27	(9 968 624)	(8 706 580)
Finance costs	28	(598 463)	(143 800)
Operating lease		(228 200)	-
Debt Impairment	29	(36 916 821)	(6 582 053)
Repairs and maintenance		(5 982 201)	(4 441 148)
Contracted services	30	(5 645 492)	(4 926 062)
General expenses	31	(34 853 210)	(36 918 762)
Total expenditure		**(152 570 650)**	**(112 677 946)**
Operating surplus		**7 271 782**	**54 944 843**
Profit/(Loss) on disposal of assets		103 742	(332 087)
Fair value adjustments	33	(248 960)	1 547 960
Actuarial gains	17	335 000	97 199
		189 782	**1 313 072**
Surplus for the year		**7 461 564**	**56 257 915**

* See Note 48

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	253 834 062	253 834 062
Adjustments		
Prior year adjustments	(688 659)	(688 659)
Balance at 01 July 2014 as restated*	**253 145 403**	**253 145 403**
Changes in net assets		
Surplus for the year	56 257 915	56 257 915
Total changes	56 257 915	56 257 915
Restated* Balance at 01 July 2015	**309 403 318**	**309 403 318**
Changes in net assets		
Surplus for the year	7 461 564	7 461 564
Total changes	7 461 564	7 461 564
Balance at 30 June 2016	**316 864 882**	**316 864 882**

* See Note 48

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Property rates		14 596 858	37 634 813
Sale of goods and services		-	(27 961 823)
Grants		135 584 939	112 693 524
Interest income		2 132 536	2 768 070
		152 314 333	125 134 584
Payments			
Employee costs		(58 461 019)	(50 567 340)
Suppliers		(31 200 033)	(34 664 599)
Finance costs		(598 463)	(143 800)
		(90 259 515)	(85 375 739)
Net cash flows from operating activities	35	**62 054 818**	**39 758 845**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(67 962 176)	(40 710 543)
Proceeds from sale of property, plant and equipment	10	614 039	280 703
Purchase of other intangible assets	11	(15 000)	(220 548)
Net cash flows from investing activities		**(67 363 137)**	**(40 650 388)**
Cash flows from financing activities			
Repayment of other financial liabilities		36 848 044	-
Net cash flows from financing activities		**36 848 044**	**-**
Net increase/(decrease) in cash and cash equivalents		**31 539 725**	**(891 543)**
Cash and cash equivalents at the beginning of the year		26 690 235	27 581 778
Cash and cash equivalents at the end of the year	3	**58 229 960**	**26 690 235**

* See Note 48

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	-	-	-	244 441	**244 441**	48.1
Rental of facilities and equipment	1 512 691	-	**1 512 691**	1 112 266	**(400 425)**	48.2
Interest received (trading)	-	-	-	1 568 231	**1 568 231**	48.3
Other income 1	-	-	-	3 076 299	**3 076 299**	
Insurance claims received	-	-	-	365 400	**365 400**	48.4
Other income	555 000	49 037 000	**49 592 000**	430 675	**(49 161 325)**	48.5
Interest received - investment	1 528 000	-	**1 528 000**	2 132 536	**604 536**	48.6
Total revenue from exchange transactions	**3 595 691**	**49 037 000**	**52 632 691**	**8 929 848**	**(43 702 843)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	1 190 000	32 288 000	**33 478 000**	14 490 055	**(18 987 945)**	48.7
Transfer revenue						
Government grants & subsidies	106 487 000	3 465 000	**109 952 000**	136 184 329	**26 232 329**	48.9
Fines, Penalties and Forfeits	-	-	-	238 200	**238 200**	48.10
Total revenue from non-exchange transactions	**107 677 000**	**35 753 000**	**143 430 000**	**150 912 584**	**7 482 584**	
Total revenue	**111 272 691**	**84 790 000**	**196 062 691**	**159 842 432**	**(36 220 259)**	
Expenditure						
Personnel	(46 636 359)	(6 521 239)	**(53 157 598)**	(48 255 513)	**4 902 085**	48.11
Remuneration of councillors	(8 805 448)	(685 522)	**(9 490 970)**	(10 122 126)	**(631 156)**	48.12
Depreciation and amortisation	(7 900 000)	(1 600 000)	**(9 500 000)**	(9 968 624)	**(468 624)**	48.13
Impairment loss/ Reversal of impairments	(3 750 164)	-	**(3 750 164)**	-	**3 750 164**	48.14
Finance costs	(70 000)	(7 000)	**(77 000)**	(598 463)	**(521 463)**	48.15
Lease rentals on operating lease	-	-	-	(228 200)	**(228 200)**	48.16
Bad debts written off	-	-	-	(36 916 821)	**(36 916 821)**	48.20
Repairs and maintenance	(7 350 000)	(40 000)	**(7 390 000)**	(5 982 201)	**1 407 799**	48.17
Contracted Services	(6 304 989)	(1 515 846)	**(7 820 835)**	(5 645 492)	**2 175 343**	48.18
General Expenses	(24 660 749)	(19 997 427)	**(44 658 176)**	(34 853 210)	**9 804 966**	48.19
Total expenditure	**(105 477 709)**	**(30 367 034)**	**(135 844 743)**	**(152 570 650)**	**(16 725 907)**	
Operating surplus	**5 794 982**	**54 422 966**	**60 217 948**	**7 271 782**	**(52 946 166)**	
Gain on disposal of assets and liabilities	-	-	-	103 742	**103 742**	
Fair value adjustments	-	-	-	(248 960)	**(248 960)**	
Actuarial gains/losses	-	-	-	335 000	**335 000**	
	-	-	-	**189 782**	**189 782**	
Surplus before taxation	**5 794 982**	**54 422 966**	**60 217 948**	**7 461 564**	**(52 756 384)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**5 794 982**	**54 422 966**	**60 217 948**	**7 461 564**	**(52 756 384)**	

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R

Ratlou Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2016											
Financial Performance											
Property rates	1 190 000	32 288 000	33 478 000	-		33 478 000	14 490 055		(18 987 945)	43 %	1 218 %
Service charges	-	-	-	-		-	244 441		244 441	DIV/0 %	DIV/0 %
Investment revenue	1 528 000	-	1 528 000	-		1 528 000	2 132 536		604 536	140 %	140 %
Transfers recognised - operational	106 487 000	3 465 000	109 952 000	-		109 952 000	107 518 366		(2 433 634)	98 %	101 %
Other own revenue	2 067 691	49 037 000	51 104 691	-		51 104 691	7 229 813		(43 874 878)	14 %	350 %
Total revenue (excluding capital transfers and contributions)	**111 272 691**	**84 790 000**	**196 062 691**	**-**		**196 062 691**	**131 615 211**		**(64 447 480)**	**67 %**	**118 %**
Employee costs	46 636 359	6 521 239	53 157 598	-	-	53 157 598	(48 255 513)	-	(101 413 111)	(91)%	(103)%
Remuneration of councillors	8 805 448	685 522	9 490 970	-	-	9 490 970	(10 122 126)	-	(19 613 096)	(107)%	(115)%
Debt impairment	3 750 164	-	3 750 164			3 750 164	(36 916 821)	-	(40 666 985)	(984)%	(984)%
Depreciation and asset impairment	7 900 000	1 600 000	9 500 000			9 500 000	(9 968 624)	-	(19 468 624)	(105)%	(126)%
Finance charges	70 000	7 000	77 000	-	-	77 000	(598 463)	-	(675 463)	(777)%	(855)%
Other expenditure	38 315 738	21 553 273	59 869 011	-	-	59 869 011	(46 958 063)	-	(106 827 074)	(78)%	(123)%
Total expenditure	**105 477 709**	**30 367 034**	**135 844 743**	**-**	**-**	**135 844 743**	**(152 819 610)**	**-**	**(288 664 353)**	**(112)%**	**(145)%**
Surplus/(Deficit)	**216 750 400**	**115 157 034**	**331 907 434**	**-**		**331 907 434**	**(21 204 399)**		**(353 111 833)**	**(6)%**	**(10)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	-	-	-	-		-	28 665 963		28 665 963	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**216 750 400**	**115 157 034**	**331 907 434**	**-**		**331 907 434**	**7 461 564**		**(324 445 870)**	**2 %**	**3 %**
Surplus/(Deficit) for the year	**216 750 400**	**115 157 034**	**331 907 434**	**-**		**331 907 434**	**7 461 564**		**(324 445 870)**	**2 %**	**3 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a receivable.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus/deficit.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

Post-retirement benefits and other long-term benefits

The present value of the post retirement obligation and other long-term employee obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 17.

Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.

Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Accounting Policies

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or for
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that is associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Accounting Policies

1.3 Property, plant and equipment (continued)

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Bins and containers	Straight line	5 years
Buildings	Straight line	30 years
Community assets	Straight line	10- 30 years
Computer equipment	Straight line	4 - 10 years
Emergency equipment	Straight line	5 - 10 years
Furniture and fittings	Straight line	7 years
Infrastructure assets	Straight line	30 - 55 years
Landfill site	Straight line	30 years
Motor vehicles	Straight line	5 - 10 years
Office equipment	Straight line	7 years
Other property, plant and equipment	Straight line	3 - 5 years
Refuse removal	Straight line	5 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Accounting Policies

1.3 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located;
- changes in the measurement of an existing decommissioning, restoration and similiar liability that result from change in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in discount rate; and
- the obligation the municipality incurs for having used the items during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

1.5 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 - 7 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note Heritage assets.

Accounting Policies

1.6 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

Subsequent to initial measurement classes of heritage assets are carried at cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the item is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Operating lease asset	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
Other financial asset	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Operating lease liability	Financial liability measured at amortised cost

Accounting Policies

1.7 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.7 Financial instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expired or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

Accounting Policies

1.8 Statutory receivables (continued)

The transaction amount (for purposes of the Standard of GRAP on Staturoty Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the accounting policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled to levy additioal charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

Accounting Policies

1.8 Statutory receivables (continued)

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

Accounting Policies

1.13 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.14 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual payments are recognised as an operating lease asset or liability

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rent are expensed in the period in which they are incurred.

Accounting Policies

1.15 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered a service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered services to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the obligation.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise of assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

Accounting Policies

1.15 Employee benefits (continued)

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.15 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Accounting Policies

1.16 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is an:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, are accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment..

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.21 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 48 for detail.

Accounting Policies

1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/06/01 to 2016/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Accounting Policies

1.28 Events after reporting date (continued)

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 21 (as amended 2015): Impairment of Non-cash-generating Assets

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets;
- the indicators of internal sources of information were amended to include obsolescence as an indication that an asset may be impaired. In line with the amendments made to IPSAS 21 on Impairment of Non-cash-generating Assets (IPSAS 21) in 2011, an amendment has been made to include another indicator of impairment i.e., where an asset's useful life has been reassessed as finite rather than indefinite;
- where the recoverable service amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples of indications of impairment and measurement of impairment losses have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

GRAP 26 (as amended 2015): Impairment of Cash-generating Assets

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets and cash generating unit;
- in line with the amendments made to IPSAS 26 on Impairment of Cash-generating Assets (IPSAS 26) in 2010, an amendment has been made to include another indicator of impairment in relation to the internal sources of information;
- where the recoverable amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples on using present value techniques to measure value in use and illustrative guidance have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

Improvements to the Standards of GRAP (2013)

Amendments were made to the following standards of GRAP:

- GRAP 1 - Presentation of Financial Statements;
- GRAP 2 - Cash Flow Statements;

	2016 R	2015 R

2. New standards and interpretations (continued)

- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors;
- GRAP 7 - Investments in Associates;
- GRAP 10 - Financial Reporting in Hyperinflationary Economies;
- GRAP 11 - Construction Contracts;
- GRAP 13 - Leases;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21 - Impairment of Non-cash-generating Assets (refer to separate note);
- GRAP 24 - Presentation of Budget Information in Financial Statements;
- GRAP 25 - Employee Benefits;
- GRAP 26 - Impairment of Cash-generating Assets (refer to separate note);
- GRAP 31 - Intangible Assets;
- GRAP 103 - Heritage Assets; and
- GRAP 104 - Financial Instruments.

The amendments relate mainly to editorial and other changes to the original text to ensure consistency with other Standards of GRAP and deletion of the appendices with illustrative guidance and examples from the standards, as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the improvements is for years beginning on or after 01 April 2015.

The municipality has adopted the improvements for the first time in the 2016 annual financial statements.

The impact of the improvments is not material.

GRAP 23 (as amended 2015): Revenue From Non-exchange Transactions

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- the scope paragraph has been amended to exclude non-exchange revenue from construction contracts from this Standard;
- commentary has been added to clarify that discounts, volume rebates or other reductions in the quoted price of assets are exchange transactions that should be treated in accordance with the Standard of GRAP on Revenue from Exchange Transactions;
- the Standard was amended to make it mandatory for entities to recognise services in-kind to the extent that the services in-kind are significant to an entity's operations and/or service delivery objectives and to the extent that the recognition criteria have been met;
- commentary has been added to clarify that services in-kind are not limited to the provision of services by individuals but also include the right to use assets. Examples have been added to illustrate this amendment; and
- the appendix with illustrative examples has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

	2016 R	2015 R

2. New standards and interpretations (continued)

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

This Standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more presentation and disclosure than is currently provided in the annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting municipality's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

A municipality that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting municipality) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the municipality. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;

	2016 R	2015 R

2. New standards and interpretations (continued)

- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

Public Private Partnership agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables, because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and

	2016 R	2015 R

2. New standards and interpretations (continued)

- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements is now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;

	2016 R	2015 R

2. New standards and interpretations (continued)

- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by the municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when the municipality is a principal or an agent.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

	2016 R	2015 R

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	414	2 828
Bank balances	14 748 243	26 669 591
Short-term deposits	43 476 437	17 517
Petrol card	4 863	299
	58 229 957	**26 690 235**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank - Public Sector Cheque Account - 620-236-3042	15 252 237	29 835 523	15 762 488	14 748 243	26 669 891	13 672 816
First National Bank - Business Money Market Investment Account - 621-5913-8299	208	14 444	11 312 130	208	14 444	11 312 130
First National Bank - Money Market Demand Deposit - 620-3270-9993	120	3 050	2 593 655	43	3 073	2 593 679
First National Bank - Call Account - 626-005-27975	39 770 673	-	-	39 770 673	-	-
First National Bank - Call Account DBSA - 626-005-30259	3 705 513	-	-	3 705 513	-	-
Total	**58 728 751**	**29 853 017**	**29 668 273**	**58 224 680**	**26 687 408**	**27 578 625**

4. Receivables from exchange transactions

Other receivables	96 837	88 135
NMMDM receivable	-	2 365 688
Consumer receivables - rental	651 381	845 042
	748 218	**3 298 865**

Trade and other receivables pledged as security

None of the trade and other receivables were pledged as security.

Trade and other receivables impaired

As of 30 June 2016, trade and other receivables of R 697 218 (2015: R 3 298 865) were impaired and provided for.

The amount of the allowance was R 2 771 807 as of 30 June 2016 (2015: R 2 078 480).

5. Receivables from non-exchange transactions

Consumer recievables - rates	13 102 732	60 042 376
Consumer recievables - traffic fines	32 841	342 950
	13 135 573	**60 385 326**

None of the receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

	2016 R	2015 R

5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 22 445 667 (2015: R 71 352 709) were impaired and provided for.

The amount of the provision was R 3 205 436 as of 30 June 2016 (2015: R 10 842 125).

6. Consumer receivable disclosure

Gross balances		
Consumer recievables - rates	22 445 660	70 884 501
Consumer receivables - rental	3 423 188	2 487 240
Consumer recievables - staff debtors	433 629	433 629
Consumer recievables - traffic fines	547 350	342 950
	26 849 827	**74 148 320**
Less: Allowance for impairment		
Consumer recievables - rates	(9 342 928)	(10 842 125)
Consumer recievables - rental	(2 771 807)	(1 642 198)
Consumer receivables - staff debtors	(433 629)	(433 629)
Consumer recievables - traffic fines	(514 509)	-
	(13 062 873)	**(12 917 952)**
Net balance		
Consumer recievables - rates	13 102 732	60 042 376
Consumer receivables - rental	651 381	845 042
Consumer recievables - traffic fines	32 841	342 950
	13 786 954	**61 230 368**
Rates		
Current (0 -30 days)	146 956	(51 958)
31 - 60 days	164 992	-
61 - 90 days	160 303	2 378 962
91 - 120 days	802 956	76 141
>120 days	21 170 453	68 481 356
Less allowance for impairment	(9 342 928)	(10 842 125)
	13 102 732	**60 042 376**
Rental		
Current (0 -30 days)	92 832	391 022
31 - 60 days	81 870	-
61 - 90 days	69 959	35 294
91 - 120 days	69 748	1 130
>120 days	336 972	417 596
	651 381	**845 042**
Traffic fines		
Current (0 -30 days)	14 600	65 800
31 - 60 days	25 600	134 400
61 - 90 days	20 050	45 900
91 - 120 days	487 100	96 850
less: Allowance for impairment	(514 509)	-
	32 841	**342 950**

	2016 R	2015 R

7. Inventories

Consumable stores	923 996	786 714

Inventory pledged as security

No inventory was pledged as security.

8. VAT receivable

VAT	9 285 622	3 641 923

9. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	19 690 000	-	19 690 000	19 938 960	-	19 938 960

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	19 938 960	(248 960)	19 690 000

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	18 391 000	1 547 960	19 938 960

Pledged as security

Investment property has not been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluation was 18 August 2016. Revaluation was performed by an independent valuer, Mr Sithole Kedibone (Reg 6988). Sithole Kedibone is not connected to the municipality.

The valuation was based on open market value for existing use and the South African Property Valuers Association's standard method of valuation.

These assumptions are based on current market conditions.

	2016 R	2015 R

10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Bins and containers	64 933	(9 083)	55 850	65 073	(2 756)	62 317
Buildings	29 560 270	(6 824 612)	22 735 658	29 009 634	(5 847 937)	23 161 697
Community assets	156 004 234	(24 695 546)	131 308 688	147 302 528	(20 673 778)	126 628 750
Computer equipment	4 786 790	(2 273 885)	2 512 905	3 999 511	(1 601 855)	2 397 656
Emergency equipment	61 086	(53 553)	7 533	61 286	(50 330)	10 956
Furniture and fixtures	3 503 391	(2 243 493)	1 259 898	3 221 852	(1 919 072)	1 302 780
Infrastructure	107 764 213	(4 779 028)	102 985 185	55 013 455	(3 054 322)	51 959 133
Motor vehicles	14 117 411	(5 227 186)	8 890 225	11 481 649	(4 677 468)	6 804 181
Office equipment	450 030	(380 347)	69 683	452 030	(342 964)	109 066
Other property, plant and equipment	1 727 404	(677 518)	1 049 886	1 259 723	(594 352)	665 371
Waste removal equipment	11 952	(8 046)	3 906	11 952	(6 338)	5 614
Total	**318 051 714**	**(47 172 297)**	**270 879 417**	**251 878 693**	**(38 771 172)**	**213 107 521**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Bins and containers	62 317	-	(77)	(6 390)	55 850
Buildings	23 161 697	550 636	-	(976 675)	22 735 658
Community assets	126 628 750	8 701 706	-	(4 021 768)	131 308 688
Computer equipment	2 397 656	842 475	(15 213)	(712 013)	2 512 905
Emergency equipment	10 956	-	(60)	(3 363)	7 533
Furniture and fixtures	1 302 780	290 041	(975)	(331 948)	1 259 898
Infrastructure	51 959 133	52 763 179	(6 683)	(1 730 444)	102 985 185
Motor vehicles	6 804 181	4 249 119	(469 996)	(1 693 079)	8 890 225
Office equipment	109 066	-	(1)	(39 382)	69 683
Other property, plant and equipment	665 371	565 020	(17 292)	(163 213)	1 049 886
Waste removal equipment	5 614	-	-	(1 708)	3 906
	213 107 521	**67 962 176**	**(510 297)**	**(9 679 983)**	**270 879 417**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Bins and containers	2 315	61 600	-	(1 598)	62 317
Buildings	22 350 194	1 796 382	(29 469)	(955 410)	23 161 697
Community	108 336 145	21 640 923	-	(3 348 318)	126 628 750
Computer equipment	1 693 886	1 427 574	(125 436)	(598 368)	2 397 656
Emergency equipment	18 474	-	-	(7 518)	10 956
Furniture and fixtures	1 766 319	-	(2 256)	(461 283)	1 302 780
Infrastructure	39 533 205	13 596 579	-	(1 170 651)	51 959 133
Motor vehicles	7 034 918	1 919 398	(441 786)	(1 708 349)	6 804 181
Office equipment	176 824	-	(1 597)	(66 161)	109 066
Other property, plant and equipment	546 210	268 087	(12 246)	(136 680)	665 371
Waste removal equipment	7 321	-	-	(1 707)	5 614
	181 465 811	**40 710 543**	**(612 790)**	**(8 456 043)**	**213 107 521**

	2016 R	2015 R

10. Property, plant and equipment (continued)

Pledged as security

Property, plant and equipment have not been pledged as security.

Reconciliation of Work-in-Progress 2016

	Infrastructure	Included within Community	Buildings	Total
Opening balance	23 537 734	54 789 140	302 588	78 629 462
Capital expenditure	41 680 177	4 008 289	635 965	46 324 431
Transferred to completed items	(3 701 174)	(12 331 147)	-	(16 032 321)
	61 516 737	**46 466 282**	**938 553**	**108 921 572**

Reconciliation of Work-in-Progress 2015

	Infrastructure	Included within Community	Buildings	Total
Opening balance	19 791 764	36 224 530	302 588	56 318 882
Capital expenditure	3 745 970	18 564 610	-	22 310 580
	23 537 734	**54 789 140**	**302 588**	**78 629 462**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 557 424	(963 075)	594 349	1 542 424	(674 436)	867 988

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	867 988	15 000	(288 639)	594 349

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	897 976	220 548	(250 536)	867 988

Pledged as security

Intangible assets have not been pledged as security.

A register containing the information required by section 63 of the Municiapl Finance Management Act is available for inspection at the registered offie of the municipality.

	2016 R	2015 R

12. Other financial liabilities

At amortised cost		
DBSA loan	36 848 044	-

A loan to the amount of R 36.3 million was approved for the frontloading of the Ratlou Local Municipality's MIG programme. The loan will be secured by pledging R 39 979 468 million of the financial year 2016/17 and financial year 2017/18 MIG allocations as per Division of Revenue Act 2015.

Ratlou Local Municipality has ceded all of its rights, titles and interest in the ceded account to Development Bank of Southern Africa Limited (DBSA) as security for the due fulfilment by Ratlou Local Municipality of its obligation towards DBSA in terms of the DBSA facility agreement]

Non-current liabilities		
At amortised cost	16 766 946	-
Current liabilities		
At amortised cost	20 081 098	-

13. Payables from exchange transactions

Trade payables	1 144 214	4 848 819
Accrued bonus	1 701 166	1 524 275
Accrued expense	-	250 000
Accrued leave pay	3 821 226	3 569 193
Other payables	401 833	252 213
Retention payables	7 078 268	2 800 391
	14 146 707	**13 244 891**

14. Consumer deposits

Housing rental	2 721	2 721

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Expanded public works programme integrated grant	-	163 869
Free basic water grant	3 142 000	2 500 000
Kalgold township development	63 250	316 250
Kraaipan grant	387 697	-
Municipal infrastructure grant	-	154 963
National Lottery Distribution fund	-	500 000
Unspent conditional grants and receipts		
	3 592 947	**3 635 082**

Movement during the year

Balance at the beginning of the year	3 635 082	10 420 965
Additions during the year	36 892 179	115 059 212
Income recognition during the year	(36 783 614)	(121 845 095)
Undefined Difference	**(150 700)**	-
	3 592 947	**3 635 082**

	2016 R	2015 R

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Reduction due to re-measurement or settlement without cost to entity	Change in discount factor	Total
Environmental rehabilitation	1 014 520	(85 329)	20 640	949 831

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Increase due to unwinding of discount	Total
Environmental rehabilitation	978 250	20 793	15 477	1 014 520

The council will incur further rehabilitation costs on two dumping/landfill sites. Provision has been made for the net present value of the cost. Qaqambile Ngumbela (Pr.Eng.) of One Pangaea Financial, a specialist waste management consultant has been utilised to determine the valuation of landfills due to his extensive experience within the field of waste management. Their independence from management is monitored. Based on the work provided by One Pangaea Financial, an applicable inflation rate of 6.66% and a discount rate of 8.83% has been utilised. The funding required by the municipality to fund rehabilitatgion has been assessed and based in the cost of (loss of revenue) investments, the municipality passed the effect of discounting coupled with the future inflation rate to approximate the current ost of the expected rehabilitation costs as disclosed above.

17. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of long service awards obligation (unfunded)	(1 082 000)	(1 417 000)
Non-current liabilities	(750 000)	(975 000)
Current liabilities	(332 000)	(442 000)
	(1 082 000)	**(1 417 000)**

Net expense recognised in the statement of financial performance

Current service cost	327 000	305 000
Interest cost	115 000	94 000
Actuarial gains	(764 000)	(97 199)
Benefits paid	(13 000)	(43 000)
	(335 000)	**258 801**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.48 %	8.13 %
Expected increase in salaries	8.13 %	6.97 %

A long service award is payable after 10 years of continuous service and every 5 years thereafter to employees. The most recent actuarial valuation of the present value fo the defined benefit provision was carried out at 30 June 2016 by CJ Maroba and TG Mhonde of One Pangaea Financial. The present value of the defined benefit obligation and the related current service cost and past service cost were measured using the Projected Unit Credit Method. At year-end 163 employees were eligible for long service awards.

	2016 R	2015 R

18. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	697 218	697 218
Receivables from non-exchange transactions	13 135 573	13 135 573
Cash and cash equivalents	58 229 957	58 229 957
	72 062 748	**72 062 748**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	14 036 309	14 036 309
Consumer deposits	2 721	2 721
	14 039 030	**14 039 030**

2015

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	3 298 865	3 298 865
Receivables from non-exchange transactions	60 385 326	60 385 326
Cash and cash equivalents	26 690 235	26 690 235
	90 374 426	**90 374 426**

Financial liabilities

	At amortised cost	Total
Consumer deposits	2 721	2 721
Payables from exchange transactions	13 244 891	13 244 891
	13 247 612	**13 247 612**

19. Service charges

Electricity charges	244 441	197 243

20. Rental of facilities and equipment

Premises		
Premises	1 076 226	956 179
Facilities and equipment		
Rental of facilities	28 728	22 791
Rental of equipment	7 312	4 681
	36 040	**27 472**
	1 112 266	**983 651**

	2016 R	2015 R
21. Other revenue		
Administration and management fees received - third party	-	2 365 688
Council write-offs	3 076 299	-
Insurance received	365 400	447 388
Other income	430 675	593 638
	3 872 374	**3 406 714**
The amount included in other revenue arising from exchanges of goods or services are as follows:		
Recoveries	1 572	-
Other income	43 392	153 310
Library income	9 501	5 020
Tender fees	186 440	428 108
Tuition fees	142 288	7 200
	383 193	**593 638**
22. Investment revenue		
Interest revenue		
Interest received bank	38 569	64 494
Interest from investments	2 093 967	1 561 179
	2 132 536	**1 625 673**
23. Property rates		
Rates received		
Property rates	15 789 482	54 496 283
Less: Income forgone	(1 299 427)	(16 327 780)
	14 490 055	**38 168 503**

	2016 R	2015 R
24. Government grants and subsidies		
Operating grants		
Equitable share	99 667 000	82 376 000
Expanded public works programme integrated grant	1 248 869	1 593 131
Financial management grant	1 800 000	1 800 003
Free basic water grant	158 000	-
Kalgold township development grant	253 000	-
LGSeta grant	90 097	74 612
LGSeta grant (Discretionary)	1 121 400	1 035 600
Municipal systems improvement grant	930 000	934 000
National lottery distribution fund	500 000	-
Sports, arts, culture and library grant	1 750 000	750 000
	107 518 366	**88 563 346**
Capital grants		
Municipal infrastructure grant	28 665 963	33 281 749
	136 184 329	**121 845 095**
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	35 917 629	39 469 095
Unconditional grants received	99 667 000	82 376 000
	135 584 629	**121 845 095**
Equitable Share		
Municipal infrastructure grant		
Balance unspent at beginning of year	154 963	10 104 715
Current-year receipts	28 511 000	23 332 000
Conditions met - transferred to revenue	(28 665 963)	(33 281 752)
	-	**154 963**

Conditions still to be met - remain liabilities (see note 15).

Funds received for instalment of infrastructure.

Kraaipan grant		
Current-year receipts	1 554 682	-
Conditions met - transferred to revenue	(1 166 985)	-
	387 697	**-**

Conditions still to be met - remain liabilities (see note 15).

The grant is provided to provide services and goods on behalf on the Grantor to the community, as such no expenditure or revenue is recognised by the municipality as it is only the intermediary.

National lottery distribution fund		
Balance unspent at beginning of year	500 000	-
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(500 000)	-
	-	**500 000**

	2016 R	2015 R

24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to upgrade recreational facilities for the community of Ratlou.

Free basic water grant

Balance unspent at beginning of year	2 500 000	-
Current-year receipts	800 000	2 500 000
Conditions met - transferred to revenue	(158 000)	-
	3 142 000	**2 500 000**

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to provide the water to the community as an agent of the District, as such no expenditure or revenue is recognised on the grant.

Financial Management Grant

Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to promote and support reforms in financial management by building capacity to impliment the Municipal Finance Management Act (MFMA)

Expanded public works programme

Balance unspent at beginning of year	163 869	-
Current-year receipts	1 085 000	1 757 000
Conditions met - transferred to revenue	(1 248 869)	(1 593 131)
	-	**163 869**

Conditions still to be met - remain liabilities (see note 15).

Appointment of workers on the Extended Public Works Program.

Kalgold township development grant

Balance unspent at beginning of year	316 250	316 250
Conditions met - transferred to revenue	(253 000)	-
	63 250	**316 250**

Conditions still to be met - remain liabilities (see note 15).

Public contribution and donations.

LG SETA (Discresionary)

Current-year receipts	1 121 400	1 035 600
Conditions met - transferred to revenue	(1 121 400)	(1 035 600)
	-	-

Conditions still to be met - remain liabilities (see note 15).

	2016 R	2015 R

24. Government grants and subsidies (continued)

The municipality received funds from LG SETA for excellent performance by the human resources division. The funds must be utilised towards training.

LG SETA

Current-year receipts	90 096	74 612
Conditions met - transferred to revenue	(90 096)	(74 612)
	-	-

Conditions still to be met - remain liabilities (see note 15).

The municipality received funds from LG SETA for excellent performance by the human resources division. The funds must be utilised towards training.

Municipal systems improvement grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

To asist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems.

Sports, arts, culture and library grant

Current-year receipts	1 750 000	750 000
Conditions met - transferred to revenue	(1 750 000)	(750 000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to support the municipality with administration of libraries.

	2016 R	2015 R
25. Employee related costs		
Basic	34 866 771	29 689 059
Medical aid - company contributions	3 464 311	2 901 153
Unemployment insurance fund contribution	278 906	232 565
Skills development levy	424 031	348 329
Leave pay provision charge	660 523	799 761
Pension fund contributions	4 140 791	3 291 576
Travel, motor car, accommodation, subsistence and other allowances	792 164	1 181 379
Overtime payments	226 608	105 656
Long-service awards	-	305 000
13th Cheques	2 670 680	2 277 016
Housing benefits and allowances	679 630	461 652
Bargaining council contributions	16 298	13 479
Telephone allowance	34 800	41 200
	48 255 513	**41 647 825**
Remuneration of G Lekomanyane - Municipal Manager		
Annual remuneration	833 396	866 572
Car allowance	272 089	223 683
Contribution to medical aid	26 345	24 916
Contributions to pension funds	183 347	190 646
Contribution to UIF	1 785	1 785
Bargaining council and skills	10 284	9 486
	1 327 246	**1 317 088**
Remuneration of MP Lekgetho - Chief Finance Officer		
Annual remuneration	863 688	863 694
Travel, motor car, accommodation and other subsistance allowance	105 600	110 815
Contribution to UIF	1 785	1 785
Bargaining council and skills	10 380	9 582
	981 453	**985 876**
Remuneration of TN Kopela - Senior Manager: Development and Town Planning		
Annual remuneration	464 154	464 159
Travel, motor car, accommodation and other subsistance allowance	369 292	367 318
Contributions to pension fund	102 114	102 115
Contribution to UIF	1 785	1 785
Bargaining council and skills	7 789	7 191
	945 134	**942 568**
Remuneration of GC Mabilo - Senior Manager: Technical Services		
Annual remuneration	-	339 022
Travel allowance	-	312 124
Contribution to medical aid	-	22 990
Contribution UIF	-	1 190
Bargaining council, skills	-	5 676
	-	**681 002**

The Director: Technical Services has resigned from the municipality, the effective date of the resignation was 28 February 2015.

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

	2016 R	2015 R
25. Employee related costs (continued)		
Remuneration of SB Pelele - Acting Senior Manager: Corporate Services		
Acting allowance	-	13 113
Remuneration of PM More - Acting Senior Manager: Technical Services		
Acting allowance	60 187	4 022
Remuneration of JM Mokgosi - Acting Senior Manager: Corporate Services		
Acting allowance	69 909	-
26. Remuneration of councillors		
Councillors	10 122 126	9 311 716

In-kind benefits

The Mayor, Speaker and full-time councillors are provided with office space.

The remuneration of the political office-bearers and councillors are above the upper limits as determined by the framework envisaged in section 219 of the Constitution.

The Mayor and Speaker each have the use of Council owned vehicles and drivers for official duties.

The Mayor and Speaker have the support of personal assistants.

	2016 R	2015 R

26. Remuneration of councillors (continued)

Councillors 30 June 2016	Annual remuneration	Back pay	Travel, accommodation, subsistence and other allowances	Contributions to UIF, medical and pension funds	Cellular phone allowance	Total
Mayor - Mance P.V - Resigned	183 466	-	83 656	36 578	9 096	312 796
Mayor - Modise T.C	202 289	3 083	76 017	17 200	8 695	307 284
Speaker - Mongala M.R	325 272	25 016	163 292	85 786	20 868	620 234
Chairperson Section 79 MSA - Boikanyo G.J	312 763	21 880	151 859	46 913	20 868	554 283
Executive committee member - Bank M.M	302 935	23 452	150 453	82 432	19 129	578 401
Executive committee member - Kumalo M.J	319 480	23 452	142 796	65 887	19 129	570 744
Executive committee member - Matebele G.A	335 105	23 452	152 874	50 261	20 868	582 560
Executive committee member - Mokgosi P.P	312 197	23 452	170 385	73 169	20 868	600 071
Executive committee member - Shomelekae V.K	335 105	23 452	189 315	50 261	20 868	619 001
Councillor - Bees T.L	134 262	10 052	66 096	20 137	20 868	251 415
Councillor - Boikanyo L	134 262	10 052	53 295	20 137	20 868	238 614
Councillor - Dala M.M	134 262	10 052	53 295	20 137	20 868	238 614
Councillor - Daniels D	134 262	9 832	97 686	20 137	20 868	282 785
Councillor - Ditau N.D	134 262	10 052	56 695	20 137	20 868	242 014
Councillor - Galetlhobogwe A.F	120 490	10 052	92 455	33 909	20 868	277 774
Councillor - Gaobotse J	134 262	10 052	97 814	20 137	20 868	283 133
Councillor - Gaosirwe	134 262	10 052	124 698	20 137	20 868	310 017
Councillor - Kobela M.F	134 262	10 052	76 381	20 137	20 868	261 700
Councillor - Lebelela K.J	134 262	10 052	59 201	20 137	20 868	244 520
Councillor - Leepile K.M	134 262	10 052	138 057	20 137	20 868	323 376
Councillor - Lentswi M.I	-	1 539	15	-	-	1 554
Councillor - Mafethe P.R	142 488	8 293	53 381	11 911	20 868	236 941

					2016 R	2015 R
26. Remuneration of councillors (continued)						
Councillor - Molaolwa K.D	134 262	10 052	79 909	20 137	20 868	265 228
Councillor - Mongala G.J	134 262	10 052	53 295	20 137	20 868	238 614
Councillor - Ncoane O.G.A	134 262	10 052	114 022	20 137	20 868	299 341
Councillor - Rankokwadi G.D	134 262	10 052	53 295	20 137	20 868	238 614
Councillor - Seabelo O.E	134 262	10 052	104 868	20 137	20 868	290 187
Councillor - Sedia M.J	134 262	10 052	178 770	20 137	20 868	364 089
Councillor - Seitshiro M.D	134 262	10 052	64 289	20 137	20 868	249 608
Councillor - Sekwati L.P	134 262	10 052	53 295	20 137	20 868	238 614
	5 308 306	**367 839**	**2 951 459**	**916 773**	**577 749**	**10 122 126**

	2016 R	2015 R

26. Remuneration of councillors (continued)

Councillors 30 June 2015	Annual remuneration	Performance bonus	Travel, accommodation, subsistence and other allowances	Contributions to UIF, medical and pension funds	Cellular phone allowance	Total
Mayor - Mance P.V	399 368	42 432	159 083	20 868	79 009	700 760
Speaker - Mongala M.R	302 932	26 903	166 841	20 868	79 758	597 302
Chairperson Section 79 MSA - Boikanyo G.J	291 643	23 541	122 618	20 868	43 164	501 834
Executive committee member - Bank M.M	385 667	25 222	25 222	20 868	75 976	532 955
Executive committee member - Kumalo M.J	295 159	25 222	124 221	20 868	63 594	529 064
Executive committee member - Matebele G.A	312 467	25 222	134 286	20 868	46 247	539 090
Executive committee memebr - Mokgosi P.P	290 849	25 222	131 829	20 868	67 913	536 681
Executive committee member - Shomelekae V.K	312 466	25 222	145 195	20 868	46 247	549 998
Councillor - Bees T.L	124 940	10 259	50 747	20 868	18 483	225 297
Councillor - Boikanyo L	124 940	10 259	47 233	20 868	18 483	221 783
Councillor - Dala M.M	124 940	10 259	47 233	20 868	18 483	221 783
Councillor - Daniels D	116 447	26 244	43 987	19 129	15 472	221 279
Councillor - Ditau N.D	124 940	10 259	47 433	20 868	18 483	221 983
Councillor - Galetlhobogwe A.F	111 945	10 259	81 701	20 868	31 508	256 281
Councillor - Gaobotse J	124 940	10 259	66 706	20 868	18 483	241 256
Councillor - Gaosirwe K	124 940	10 259	94 475	20 868	18 483	269 025
Councillor - Kobela M.F	124 939	10 259	60 950	20 868	18 483	235 499
Councillor - Lebelela K.J	124 940	10 259	53 413	20 868	18 483	227 963
Councillor - Leepile K.M	124 940	10 259	121 283	20 868	18 483	295 833
Councillor - Lentswe M.I - Deceased	71 246	7 838	66 355	12 173	10 536	168 148
Councillor - Mafethe P.R	47 175	894	16 032	6 956	-	71 057

					2016 R	2015 R
26. Remuneration of councillors (continued)						
Councillor - Molaolwa K.D	124 940	10 259	60 945	20 868	18 483	235 495
Councillor - Mongala G.J	124 940	10 259	47 833	20 868	18 483	222 383
Councillor - Ncoane O.G.A	124 940	10 259	104 514	20 868	18 483	279 064
Councillor - Rankokwadi G.D	124 940	10 259	51 280	20 868	18 483	225 830
Councillor - Seabelo O.E	124 940	10 259	50 738	20 868	18 483	225 288
Councillor - Sedia M.J	124 940	10 259	132 167	20 868	18 483	306 717
Councillor - Seitshiro M.D	128 075	10 259	55 211	20 868	15 472	229 885
Councillor - Sekwati L.P	124 940	10 259	47 633	20 868	18 483	222 183
	5 064 478	**438 624**	**2 357 164**	**580 826**	**870 624**	**9 311 716**

The remuneration of the political office-bearers and councillors are within the upper limits are determined by the framework envisaged in section 219 of the Constitution.

27. Depreciation and amortisation		
Property, plant and equipment	9 968 624	8 706 580
28. Finance costs		
Bank	598 463	143 800
29. Debt impairment		
Allowance for credit losses	36 916 821	6 582 053
30. Contracted services		
Information Technology Services	472 089	259 860
Fleet Services	5 072 797	4 666 202
Specialist Services	100 606	-
	5 645 492	**4 926 062**

	2016 R	2015 R
31. General expenses		
Accommodation and meals	1 599 015	951 379
Advertising	339 071	293 913
Auditors remuneration	2 753 503	2 294 614
Bank charges	71 077	9 867
Catering	412 989	293 583
Cleaning	144 387	351 094
Community development and training	89 191	528 394
Conferences and seminars	42 093	103 243
Consulting and professional fees	3 413 100	4 899 692
Consumables	286 863	213 414
Donations	55 325	87 321
Electricity	3 564 769	3 832 086
Exhibitions	1 607 569	1 918 012
MSIG expense	1 706	-
FMG expense	1 176 017	1 143 240
Fleet	291 354	136 884
Fuel and oil	1 395 268	1 337 687
IDP	344 110	169 507
IT expenses	969 197	578 254
Insurance	2 198 750	1 916 049
Land restitution	-	81 000
Mayoral imbizo	528 604	488 692
Membership fees	1 316	551 808
Motor vehicle expenses	237 399	63 888
NMMDM water projects expenditure	-	2 365 688
Other expenses	46 690	389 844
PMU costs	1 255 142	1 352 548
Performance management	-	62 822
Pest control	327 275	243 696
Printing and stationery	1 638 320	1 361 446
Public awareness	75 915	136 523
Public particlation	131 884	8 678
Public safety	61 457	50 331
Stipends and internships	3 897 949	3 445 775
Strategic planning	-	109 267
Subscriptions and membership fees	10 487	3 462
Support LED projects	258 458	226 713
Telecentre support	236 280	165 000
Telephone and fax	2 488 331	2 508 401
Tourism development	-	32 705
Training	2 846 264	2 181 632
Transport and freight	4 000	6 500
Uniforms	52 085	24 110
	34 853 210	**36 918 762**
32. Consulting and professional fees		
Legal fees	1 893 108	1 247 756
Audit committee fees	2 200	22 889
Town planning development and valuation roll	303 860	1 055 078
Professional services rendered	1 212 568	2 573 968
	3 411 736	**4 899 691**
33. Fair value adjustments		
Investment property (Fair value model)	(248 960)	1 547 960

	2016 R	2015 R
34. Auditors' remuneration		
Fees	2 753 503	2 294 614
35. Cash generated from operations		
Surplus	7 461 564	56 257 915
Adjustments for:		
Depreciation and amortisation	9 968 624	8 706 580
(Loss) gain on sale of assets and liabilities	(103 742)	332 087
Fair value adjustments	248 960	(1 547 960)
Debt impairment	36 916 821	6 582 053
Movements in retirement benefit assets and liabilities	(335 000)	295 000
Movements in provisions	(64 689)	36 270
Changes in working capital:		
Inventories	(137 282)	(65 965)
Receivables from exchange transactions	2 550 647	(2 955 313)
Consumer debtors	(36 916 821)	(6 582 053)
Receivables from non-exchange transactions	47 249 753	(23 872 754)
Payables from exchange transactions	901 817	3 037 906
VAT	(5 643 699)	6 320 331
Unspent conditional grants and receipts	(42 135)	(6 785 883)
Consumer deposits	-	631
	62 054 818	**39 758 845**
36. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	122 808 049	94 125 721
Total capital commitments		
Already contracted for but not provided for	122 808 049	94 125 721
Authorised operational expenditure		
Total commitments		
Total commitments		
Authorised capital expenditure	122 808 049	94 125 721

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	547 801	-
- in second to fifth year inclusive	319 608	-
	867 409	**-**

	2016 R	2015 R

37. Contingencies

Litigation for and against Ratlou Local Municipality		
Legal action by Kebotlhe Trading against the municipality for loss of income	550 000	550 000
Legal action by MEPF against the municipality regarding employees pension fund	870 000	870 000
Legal action by SAMWU against the municipality for non compliance of the award	85 000	85 000
The application for four complex tenants eviction is pending	700 000	700 000
Legal action by SB 3 enterprice for services rendered and not paid for	-	115 000
Legal action by MDCC (Pty) Ltd for the outstanding payments for Matloding community hall projects	-	5 000
	2 205 000	**2 325 000**

38. Related parties

Relationships	
Councillors	Refer to note 26
Members of key management	Refer to note 25
Employees and organisations in which they have direct or indirect material interest	Refer to related party transactions below

Related party balances

Related party transactions

Payments to family members of persons in service of the municipality		
Aobakwe Catering and Enterprise	-	13 775
Batsatsing Consulting	284 524	467 800
Dikellelong Engineers	-	466 784
G.T Nthwane	35 700	59 300
Glam Concepts	-	23 260
Khuduga Steel and Brick Work	246 400	195 000
Mere Mentsi Construction & Trading	-	77 300
Refilwe Botsalano Trading & Enterprise	162 350	147 070
O.V.S Construction and Maintenance	186 300	376 100
Tshaba Motho Transport	47 000	15 000
Tumagotlhe Building Constrauction and Transport	11 000	-
Tumisang and Keletso Trading	57 335	97 999
Compu-cell	617 974	-
Rediko Enterprise	367 500	-
Striving mind 262	227 405	-

39. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

39. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	20 081 098	16 766 946	-	-
Paybles from exchange transactions	14 036 309	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	13 244 891	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Receivables from exchange transactions	697 218	3 298 865
Receivables from non-exchange transactions	13 135 573	60 853 534
Cash and cash equivalents	58 229 957	26 690 236

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

41. Events after the reporting date

No material subsequent events were identified.

42. Unauthorised expenditure

Opening balance	28 323 519	25 721 514
Incurred during the current year	35 655 430	2 602 005
	63 978 949	**28 323 519**

Mangement submitted all unauthorised expenditure incurred to council for investigation.

The Council has approved the writing off of debts due to the dispute resolved between the municipality and the department of public works. The money related to billing that was for prior years but entry was processed in current year.

43. Fruitless and wasteful expenditure

Opening balance	176 692	51 204
Fruitless and wasteful incurred	23 000	125 488
	199 692	**176 692**

Mangement submitted all unauthorised expenditure incurred to council for investigation.

44. Irregular expenditure

Opening balance	60 299 014	51 970 891
Add: Irregular Expenditure - current year	2 989 834	8 328 123
	63 288 848	**60 299 014**

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	551 808	-
Amount paid - current year	(551 808)	-
	-	-

Material losses through criminal conduct

There are no material losses that were incurred by the municipality

Audit fees

Current year subscription / fee	2 753 503	2 624 256
Amount paid - current year	(2 753 503)	(2 624 256)
	-	-

PAYE and UIF

Current year subscription / fee	8 832 290	7 745 058
Amount paid - current year	(8 832 290)	(7 745 058)
	-	-

Pension and medical aid deductions

Current year subscription / fee	8 628 810	7 215 608
Amount paid - current year	(8 628 810)	(7 215 608)
	-	-

VAT

VAT receivable	9 285 622	3 641 923

All VAT returns have been submitted by the due date throughout the year.

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Emergency	562 120	700 222
Sole supplier	190 485	369 566
Impractical or impossible to follow the procurement process	114 800	579 640
Special work of art	40 000	324 488
Exceptional	127 730	-
	1 035 135	**1 973 916**

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Special work of arts, emergency services, and services provided y sole providers were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated aboveThe reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations.

47. Budget differences

Material differences between budget and actual amounts

[48.1The budget for this revenue item is part of rental income
48.2 The municipality over budgeted on rentals income
48.3 The budget is part of other revenue
48.4 The budget is part of other revenue
48.5 Budget amount is inclusive of surpuses from prior year which funded the adjustment budget
48.6 The municipality projected less than collection
48.7 The dispute in government property which resulted in the reversal of billing
48.9 The capital government grants are disclosed separately from operational in the budget
48.10 This item is budgeted under other revenue
48.11 The municipality appointed some of its personnel after June
48.12 The S&T is inclusive in the actual whereas in the budget its disclosed under other expenses
48.13 The municipality have underbudgeted on this noncash item item
48.14 The municipality have underbudgeted on this noncash item item
48.15 The municipality did not take into account the portion of interest on loan that will be part of the 2015/2016 when budgeting
48.16 This item is budgeted under general expenses
48.17 The minicipality purchased material and use its personnel to repair and that resulted in cost saving
48.18 The municipality projected more than what was paid
48.19 The municipality spent less than projected .
48.20 The municipality reached an agreement with Public Works to write off certain rates charged in the previous financial years.

48. Prior period errors

The prior year has been amended to account for prior period errors.

48. Prior period errors (continued)

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of compartives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Statement of financial performance for the year ended 30 June 2015	Balance as previously reported	Change in accounting policy (note x)	Prior period error	Reclassified (note x)	Total
Revenue					
Rental of facilities and equipment	1 018 008	-	(34 357)	-	983 651
Interest received - trading	1 142 398	-	(93 787)	-	1 048 611
	2 160 406	**-**	**(128 144)**	**-**	**2 032 262**

Statement of financial position	Balance as previously reported	Change in accounting policy (note x)	Prior period error	Reclassificatio n (note x)	Total
Current assets					
Receivables from exchange transactions	3 607 998	-	(311 788)	-	3 296 210
VAT receivable	3 678 730	-	(36 807)	-	3 641 923
Receivables from non-exchange transactions	60 853 534	(1 561 214)	-	-	59 292 320
	68 140 262	**(1 561 214)**	**(348 595)**	**-**	**66 230 453**
Net assets					
Accumulated surplus - opening balance	310 217 468	-	(1 909 810)	-	308 307 658

1. Error 1

Rentals escalation were previously incorrectly taken into account when billing debtors on rentals of premises. The error resulted in the rental adjusts on prior periods.]

Statement of financial position		
Receivables from exchange	-	55 490
VAT receivables	-	4 810
Accumulated surplus	-	(94 657)
	-	**(34 357)**
Statement of financial performance		
Rental income	-	34 357

2. Error 2

[Interest on trading was incorrectly calculated in the past. This resulted in the previous years interest being reversed and the interest being calculated correctly.]

Statement of financial position		
Receivables from non-exchange	-	(1 551 438)
Receivables from exchange	-	(357 502)
Accumulated surplus	-	1 815 153
	-	**(93 787)**
Statement of financial performance		
Interest income - Trading	-	93 787